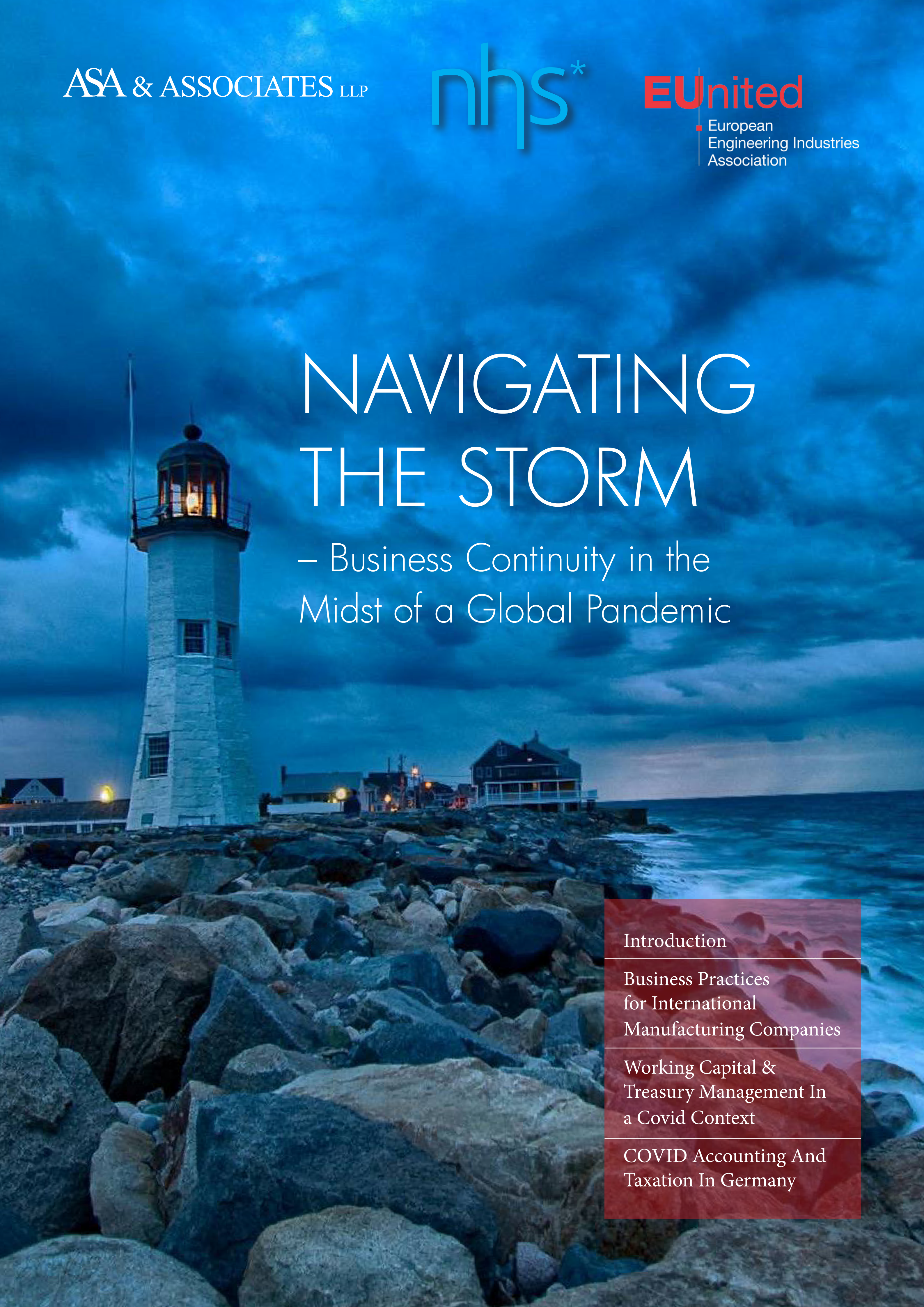

ASA & ASSOCIATES LLP

nhs*

EUnited
European
Engineering Industries
Association

NAVIGATING THE STORM

– Business Continuity in the Midst of a Global Pandemic

Introduction

Jethro Schiansky
– Executive Director,
EUnited

It took just a few weeks in the first quarter of 2020 for the COVID-19 pandemic to profoundly impact life all over the world. In addition to the health aspect of this crisis, the global economic outlook has also taken a drastic hit. Indeed, in Europe, most countries took measures which effectively shut down their economies for 10-12 weeks. As economic activity quickly nose-dived, the EU published its Spring European Economic Forecast which predicted that economic output in Q2 2020 would be around 16% lower than in Q4 2019 and that the economic contraction in EU GDP in 2020 is expected to be 7½% meaning that it is set to be far deeper than during the financial crisis in 2009.

Member States and the EU reacted quickly putting in place state aid programmes and at EU level several packages of financial support mechanisms. At the end of May the EU published its proposal for an EU Recovery Plan made up of loans and grants to the tune of €750 billion, as well as an updated EU budget for the period until 2027. Whilst this is positive news for the most part, there have been legitimate questions surrounding the ability of the EU to coordinate its response and recovery. The importance of overcoming the crisis, and the vital role that Europe's industry will have in supporting European citizens through it, in a multitude of ways, cannot be over-stated.

But what does all of this mean for manufacturing businesses in Europe? Beyond the plethora of financial support mechanisms available at national and EU level, companies have and will continue to need to learn to navigate the multitude of challenges facing them, from social distancing, to supply chain disruptions, from managing digital infrastructure and telework to national personnel retention schemes. At the same time the EU's Recovery Plan is inextricably linked to its twin strategy of Green and Digital leadership which will present a series of opportunities and potentially also hurdles for European business to cross in the months and years ahead. It should also be stressed that a high degree of uncertainly surrounds all economic forecasts published to date. The European Commission predicted that another surge in infections this year could lead to a further GDP drop of 3%.

So what are some of the things that can be done in the face of these extraordinary challenges? The following is a short look at a number of considerations that should be taken into account by all manufacturing companies, right now, and also as we look towards the recovery phase of the crisis. Firstly, we look at a series of business practices which should be considered specifically in relation to this pandemic, we also look at working capital and treasury management as well as a closer look at COVID accounting, in particular in Germany.

Business Practices for International Manufacturing Companies

Sandeep Khanna
– *Director*, Strategy Consulting, ASA & Associates LLP

This year is a stark test for leadership, and companies that have foreign subsidiaries must ensure that leaders of subsidiaries are entrepreneurial with strong people skills. Ideally, the subsidiaries should not be making 'cash calls' on the parent company and managing working capital on their own, fully utilizing stimulus packages as offered in respective markets. Leaders of the parent company in the home market should have open communication with all stakeholders – shareholders, employees, customers, suppliers – keeping them regularly updated on state of the business.

Liquidity management starts with sales forecasting. It is suggested that sales forecasts err on the side of caution lest precious cash gets blocked in inventory. Segment your customers, avoid dealing with tardy customers in a year like the current one, consider pent-up demand once normalcy is restored and engage with your top 10 customers directly and as soon as possible – both to understand their changing needs and to 'take them along' in the ongoing journey. Suppliers' readiness also needs to be ascertained to develop robust forecasts as indeed preparedness of the company's sales force.

It goes without saying that if realistic sales forecasts reflect that a company will not be able to cover its fixed costs then each line item of the P&L would need to be intently scrutinized – payments that can be delayed ought to be and activities which can be outsourced should be. Staff costs must be managed with extreme care and sensitivity, and redundancy decisions made as a last resort in keeping with company policy and local laws.

Specifically, at a plant level, plants must be readied keeping physical distancing in mind – manufacturers today are having dedicated workers to production lines and spacing out shifts. Plant staff needs to be fully trained in hygiene and sanitation and made responsible for their movements both within and outside plant. The Plant Manager too, needs to have a contingency plan should some of the workers report sick.

This is an opportunity for automating and digitizing the plant further while making minimal capex investments. Utilizing the power of Analytics both predictive and prescriptive, the use of Robotics wherever feasible both for efficiency and enhancing physical distancing, and digitally monitoring the plant remotely are very useful tools to be considered if not already done so. As the nature of marketing changes, product and service innovations can convert looming challenges into opportunities. At the shop floor, ensuring quality control at each stage of production will help avoid re-work and scrap at the final stage.

While staying liquid has become a priority for businesses the world over, companies should keep their growth plans prepared as well. Identify sectors of opportunity in current and future markets, engage with prospective collaborators for growth in the near future and develop portfolio actions i.e. divestment, M&A etc. not just for growth but also for revenue and execute them if the environment permits. This is also an opportune time to plug any compliance gaps and prepare medium term de-risking plans if the company has exposure to high-risk markets.

Working Capital & Treasury Management in Covid Times

Sundeep Gupta
– *Partner*, Accounting and Business Support, Indirect Tax, ASA & Associates LLP

These turbulent times have brought to the fore the criticality of cash as the ultimate lever of liquidity. Managing liquidity became the single most significant aspect for businesses during the lockdown. And it will continue to be so till the supply chains resume normal activity. Managing working capital and treasury operations are the two tasks which CFOs are spending most time upon.

Working Capital (WC) Management

The 5 key aspects for an optimal management:

- **Faster churn**: WC cycle must be shortened; faster the churn, better the WC position.
- **Disruption risks**: building in risks of disruption of supply chain due to liquidity or other difficulties of vendors and customers should not be ruled out. Adequate measures should be devised.
- **Additional costs:** these become necessary for safety and sanitization measures required and must be budgeted for.
- **Capacity utilization**: one needs to be careful here. While over-optimism results into blocking of WC, pessimism leads to lost opportunities. A fine balance will be required here.
- **Second wave**: this should not be ruled out and planning for such an eventuality will be pragmatic.

While analysing the individual components of WC, we should look at:

- **Inventory:** From raw materials to finished goods, inventory levels must be lowered. Idle inventory sell-offs generating cash, procurements based on orders-in-hand and production lead time, import substitution for quicker turnaround of WC and focus on fast selling SKU's should be key factors.
- **Overheads**: these need to be micro-analysed. Travel only if necessary, data analytics to optimize advertising and sales promotion costs targeting geographies with high sales and margins will help. Relooking at all fixed costs and improving fixed cost recovery in times of disturbed markets will also assist liquidity.
- **Receivables:** incentivising customers for early payments, reworking credit terms and factoring solutions will raise the much-needed cash.
- **Procurements:** renegotiating contracts in terms of efficient INCOTERMS, optimizing procurement batch sizes and reviewing all non-essential procurements will preserve cash.
- **People costs**: while there may be little scope here, deferral of bonuses and increments may provide some options.

Treasury Management

Every Treasurer should ensure that liquidity crunch does not lead to bankruptcy. Cash flow planning will be of essence. Building rolling cash flows for short term (15~30 days), medium term (3~6 months) and long term (1 year) will give direction. It also provides for course correction on an immediate basis while making sure the businesses continue to be provided with the bloodline – cash. "Sweating" all assets becomes the key. Idle assets will prove to be a drain. While debt free business is always preferred, these times do call for conscious leverage, albeit carefully.

Providing funds for the "cash burn" will be critical to keep the candles burning. A few strategies here:

- **Sourcing funds**: while enhancing existing lines of credit, new lines should also be explored. Cash pooling within group entities should not be ignored. Innovative financial instruments for raising cash also should be worked out.
- **Capital expenditure (Capex)**: existing and on-going projects must be scrutinized. Capex should be done only where the sales outlook is positive in the short to medium term. Monetizing work-in-process of long gestation projects could be an option.
- **Hedging**: currency volatility will need protection with a strong hedging policy. Significant erosion of margins can be prevented having currency exposure.
- **Government policies:** relief measures announced by government should not be ignored. Additionally, representations for any sector specific relief required to tide over the crisis should be sent.

We should be ready for at least 6 months of cash flow management. Tough times, but creating a CASH COMMAND CENTRE to strategize, monitor, re-strategize will go a long way. This year should be treated as a year of survival. Profits will surely follow for those that outlive this crisis.

COVID Accounting And Taxation In Germany

Katharina Knollenborg
– Certified Tax Advisor,
NHS GmbH

Short-time work

Short-time work already existed before the current crisis but the conditions to apply for it have been relieved in many countries including Germany to help deal with the current context. Short-time work benefit replaces part of the lost net income.

In order to apply for short-time work at least 10% of the staff must be affected by lack of work. The maximum claim is 12 months which can be extended to a maximum of 24 months under special circumstances. The worker's council needs to agree to the introduction of short-time work. There must be an exact documentation about the actual loss of working hours. Short-time work benefit will only be paid for regularly employed staff which are subject to social security contributions (no mini-jobbers, nor students).

Short-time work benefit is calculated on the basis of the net loss of salary. The usual benefit is 60% of the loss. With at least one child the benefit increases to 67%. New regulations increase short-time work benefit if the employee has a loss of working hours of at least 50%. For the 1st to 3rd month the reimbursement will be as usual (60%/ 67%). From the 4th to 6th month there is an increase to 70% (77%) and for the 7th to the 12th month even to 80% (87%). These increases shall apply until December, 31st 2020 at the latest.

First, the notification of the loss of working hours needs to be submitted at the Federal Employment agency. After approval, the monthly submission of short-time work application (Kug 107) and the settlement lists (Kug 108) need to be handed in at the Federal Employment Agency which will reimburse the benefit after a few months. Therefore, advance payments by the employer are unavoidable. The submissions should be complete in order to ensure a smooth reimbursement.

Employees who receive short-time work are obliged to submit individual income tax returns in which short-time work is considered in their progression proviso.

Reduce tax payments – increase liquidity

Tax prepayments like the VAT extension payment for 2020 (special advance payment called "special advance payment 1/11") can be paid back by filing a corrected nil declaration.

Because of new forecast results for 2020 tax prepayments can be reduced. Prepayments which already have been paid can be claimed back.

If the tax return for 2019 is not handed in yet, tax losses in 2020 can be carried backward to the prior year by using a flate-rate loss carryback which is 15% of the net income for 2019. The prepayments for 2019 will be reduced or paid back fully.

When handing in the tax return 2019 a mechanism will be introduced to make a carryback of foreseeable losses in 2020 directly financially effective, e.g. by creating a tax corona reserve.

It is also possible to defer tax payments like VAT, corporate tax or/and income tax without accrued interest until December, 31st 2020. Companies only need to demonstrate shortly that they are directly affected by the crisis. Enforcement measures will be suspended when deferring taxes. In the case of wage tax, a deferral is not possible as wage tax is determined at the level of the employee and not the employer.

Practically, companies should cancel the direct debit mandate at the tax authorities to avoid automatic deductions and apply to deferments simultaneously.

About Us

ASA & ASSOCIATES LLP

ASA & Associates LLP is a 30 year old accounting and consulting firm in India with a team of over 700 professionals spread across 8 offices. A major part of our focus is on foreign companies setting up and operating in India. We work with our clients to help them set up offices and factories in India, find partners, take care of their taxation, accounting, payroll, M&A and business support requirements. We also offer compliance and taxation diagnostics, GST advisory, risk advisory services and help them with liquidations as well. For more information please contact us or visit our website

Contact:
ASA & Associates LLP
Aurobindo Tower 81/1
Adchini, Aurobindo Marg
New Delhi 110 017
+91 11 41009999
info@asa.in
www.asa.in

nhs*

NHS GmbH Certified Accountants is an accountancy firm located in Düsseldorf with more than 25 employees from 4 different nationalities. Next to our local companies we have a strong focus on international clients, especially from Japan. We offer services in the field of accounting and business reporting, payroll activities, tax advisory and compliance, audit, management consulting and financial analysis.

Contact:
NHS GmbH
Wirtschaftsprüfungsgesellschaft
Am Wehrhahn 100 · 40211
Düsseldorf
Germany
+49 211 99 33 99 0
info@nhsgroup.de
www.nhsgroup.de

EUnited
European
Engineering Industries
Association

EUnited represents machinery and equipment suppliers in Europe. We currently have over 85 companies in our membership which design and develop specialist technology, systems and products which are used in factories and our communities all over the world. We engage with EU policymakers and advocate on a broad range of policies and regulatory issues of relevance for our members. Our sectors currently include Cleaning, Municipal Equipment, Robotics, and Vehicle Cleaning. For more information please contact us or visit our website:

Contact:
EUnited aisbl – European
Engineering Industries
Association
BluePoint Building, Bd. A.
Reyers 80
B - 1030 Bruxelles
T+32 2 706 82 09
www.eu-nited.net